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India: Rajiv Gandhi's Economic Policies -- Early SignpostsSummary

Prime Minister Rajiv Gandhi's speeches, interviews, appointments to economic positions, and initial instructions to the bureaucracy point to an emphasis on modernization, efficiency, and pragmatism in economic policy. Private businessmen are enthusiastic about the new approach, but temper their expectations with caution. [redacted]

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Improvement in industrial productivity is likely to be a dominant theme. Rajiv hopes to achieve this through a) assimilation of modern technology, and b) greater efficiency within the public sector via decentralization of decisionmaking, possibly even near autonomy for public sector corporations. Other important new measures will include the simplification of controls on private industrial production, although the industrial licensing system is likely to continue, and the intensification of export promotion efforts. [redacted]

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Rajiv's ability to implement his drive for productivity will probably be constrained by balance-of-payments and domestic budget problems, about which he has not yet commented. Moreover, moving the ponderous Indian bureaucracy has always proved difficult. [redacted]

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This memorandum was prepared by [redacted] Subcontinent Branch, South Asia Division, Office of Near Eastern and South Asian Analysis. Information available as of 22 January 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Subcontinent Branch, South Asia Division, NESAs, [redacted]

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[REDACTED]

Rajiv's interest in economic policy, in our judgment, is second only to his interest in national unity issues such as problems in Punjab and Assam. He will pursue an economic policy with more specific goals than his mother; the emphasis will be on improving industrial productivity. Under Indira Gandhi, the theme of economic liberalization emerged only after a multitude of minor relaxations of government regulations. [REDACTED]

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Productivity and Technology

Technology will clearly be a major component of Rajiv's drive for improved industrial productivity.

- o His major policy speech of 5 January noted that improvements in productivity, absorption of modern technology, and fuller use of capacity must acquire the status of a national campaign.
- o During recent press interviews he noted that India has to improve its ability to transform competence in basic research into production.
- o Earlier he emphasized that India must not be left behind in the scientific revolution in electronics. [REDACTED]

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The Congress Party platform also stressed these themes, and Rajiv has asked the bureaucracy for specific proposals. [REDACTED]

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The Indian goal of self-reliance will present some obstacles to the acquisition of imported high-technology. Recent press reports indicate no backing away from efforts to protect and stimulate fledgling domestic industries, including locally produced computers and oil exploration equipment. Rajiv's focus will be on absorbing -- not simply acquiring -- technology. [REDACTED]

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So far, Rajiv seems to have a relatively narrow view of what must be done to improve productivity. Although his public statements and initial meetings with bureaucrats have gone beyond technology to emphasize improved public sector management and educational reform, he has stopped short of addressing the critical problems of prices, financial resources, labor relations, and infrastructure. Some of Rajiv's advisers -- including Manmohan Singh, new Planning Commission chief -- have a comprehensive view that may eventually be reflected in policies of the new government. Rajiv's approach, in any case, is more sophisticated than his mother's; she seemed to believe technological gains were possible without major institutional change. [REDACTED]

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[REDACTED]

Public vs Private Sector

Rajiv's 5 January speech reaffirmed that the public sector will continue to be a major tool of economic development. The Congress election manifesto described the public sector as the main instrument for stepping up industrialization. [REDACTED]

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At the same time Rajiv has said that the public sector is active where it should not be, and that sick industries cannot be supported indefinitely. According to the press, the Sengupta committee report on the public sector -- commissioned before the assassination -- considered the closing of non-viable units. We have seen no hints of plans to denationalize any heavy industry, however. There have been some hints of a new textile policy and we speculate that this may involve closing or denationalizing some unprofitable public textile factories. [REDACTED]

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Rajiv has stressed the need to improve management within the public sector, and may be planning to free public sector corporations to operate as commercial entities under only minimum ministerial control. His 5 January speech called for far-reaching administrative reform, including decentralization of decisionmaking with "enforcement of accountability," and Rajiv repeated this theme when discussing industrial policy with senior bureaucrats. [REDACTED]

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In our view, Rajiv's comments on the need to decentralize decisionmaking apply solely to the central government bureaucracy and public sector corporations. He has not indicated any plans to transfer economic authority from the central government to the states, and the Congress Party platform contends that there is no contradiction between a strong center and strong states. If Rajiv does move to change center-state economic relations, it will probably be as a result of efforts to ease tensions in Punjab and Assam, not a result of his economic policy views. [REDACTED]

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Rajiv may intend to reinstate the Planning Commission as a major policy advisory group, but nevertheless seek a less ambitious Five Year Plan. He recently appointed the two leading government advocates of economic liberalization to the Planning Commission -- Abid Hussain, whose term as secretary at the Commerce Ministry has just expired, and Manmohan Singh. Although Rajiv has reaffirmed the government's commitment to planning, he may follow Manmohan Singh's advice to drop efforts to develop detailed economic targets and instead concentrate planning efforts on vital sectors and non-tradeable goods such as power, transport, and irrigation. [REDACTED]

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As for the private sector, last November Rajiv said that it has "adequate scope" to enhance its production. During a January interview with a US magazine, he noted, with apparent approval, that new areas had been opened to private investment -- probably a reference to the new telecommunications policy -- but did not hint at further moves. [REDACTED]

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Industrial Controls

We expect Rajiv to loosen government restrictions on private industry, mainly to spur output, but also, as he said in a January interview, to reduce opportunities for corruption. One of his first moves was to shift the government department that supervises private corporations to the Ministry of Industries, whose bureaucratic bias favors production rather than restraint. He has told bureaucrats to simplify industrial control procedures by issuing licenses for a range of products rather than specific items and by permitting certain industries to expand without prior government permission. Rajiv also wants to ease restrictions on the use of foreign technicians and brand names. [REDACTED]

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Rajiv apparently intends to retain the industrial licensing system, perhaps in modified form. It will be used to implement new pollution controls that were imposed on 18 industries after the Bhopal disaster. In addition, press reports indicate that Rajiv will favor small-scale industries and backward areas. In the past this had been done through licensing controls as well as credit policies and subsidies. [REDACTED]

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Rajiv has not commented on regulation of the economy through financial rather than administrative controls. This topic was discussed by businessmen and officials in the months before the assassination, but a report commissioned by Indira Gandhi has not yet been released. Official enthusiasm for the shift may have been tempered by a recent Bombay High Court decision, which held that government financial institutions could not act like an ordinary shareholder, but could intervene in corporate management only to protect their investment. Pending further judicial review, this seems to close an opportunity for the government to regulate the pattern of private investment through the financial institutions. [REDACTED]

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Rajiv may rely more on tariffs and less on licenses to regulate imports. Although he has not commented on import licensing controls recently, the new computer policy, which is still not fully formulated, seems to be a step in this direction. [REDACTED]

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Export Promotion

Rajiv has called for concrete steps to give a fresh impetus to exports. He is probably considering an unpublished report, recently completed under the supervision of Abid Hussain, which reviewed export promotion measures and considered changes in import policy that could help conserve foreign exchange. According to the US Embassy, this report recommends further tax concessions and import privileges for exporters. Rajiv wants to move on this within the next few weeks, perhaps even before the annual April trade policy statement and in time for the presentation of the central government budget at the end of February. [REDACTED]

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Within the bureaucracy -- and perhaps unknown to Rajiv -- several measures that could affect trade policy have been mooted recently:

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- o A committee that has spent two years studying a strategy for expanding exports of engineering and capital goods has recommended more subsidies and concessional freight rates, liberal access to foreign technology, and -- for industries with a strong export potential -- removal of restrictions on production by foreign and large companies.
- o A Planning Commission study favors new policies to push sales of engineering goods, chemicals, gems, leather products and marine products.
- o The bureaucracy is pushing ahead with countertrade -- the linking of some import purchases with exports of Indian goods and project services. 25X1

Rajiv apparently sees export promotion as part of his program to improve economic efficiency, rather than part of a strategy to ease balance-of-payments problems. He has said nothing so far about growing Indian debt service obligations or declining concessional foreign aid. His counsel to move away from dependence on military assistance from the Soviet Union suggests he may not be fully aware of forthcoming payments problems. 25X1

Agriculture

Central government support for agriculture through research programs, procurement policies, and financial help to state governments will probably continue. Agriculture was a key theme of the Congress Party manifesto, and Rajiv's enthusiasm for industrial efficiency may carry over to agriculture and lead to new additional efforts to promote agricultural exports and improve irrigation. Rajiv's lack of comment on agricultural policy, however, suggests that he is not contemplating any major policy changes beyond those already underway and summarized in the guidelines for the Seventh Plan. 25X1

Rajiv is interested in ecology. The published text of his 5 January speech called for two new government organizations to deal with the problems of deforestation and Ganges river pollution. These topics are not yet a major focus of government policy, but may become more important in the future. 25X1

Constraints on Policy Options

Congress dominance of parliament does not give Rajiv a free hand in modernizing the economy. Shortages of government revenue and forthcoming balance-of-payments strains limit his ability to promote productivity through tax concessions and increased imports. He must still consider the views of businessmen who welcome the protection from competition provided by import and production restrictions. Rajiv must also be cautious about trying to reduce public sector losses through an increase in administered prices or closing unprofitable units that employ many people lest he add to the social unrest already caused by communal problems. Furthermore, bureaucrats have traditionally resisted efforts to reduce their authority. 25X1

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Private Businessmen Enthusiastic

Indian industrialists and traders are enthusiastic about the new government's pragmatism and sense of urgency, according to press and Embassy reports. Some highlight Rajiv's drive to make the bureaucracy more efficient. Others look for a relaxation of import and licensing procedures and of restrictions on foreign and large domestic corporations. In the absence of specific government proposals, many businessmen apparently believe Rajiv will make whatever policy changes they themselves would recommend. The general air of optimism is tempered, however, by concern that Rajiv may attempt too much too soon, and that bureaucratic resistance and political expediency will curtail the drive for efficiency. [REDACTED]

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Implications for the US

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Rajiv's fascination with high technology will probably sustain the recent trend toward increased cooperation between Indian and foreign business firms and may open new opportunities for business links with US firms. If Indian access to desired technology is frustrated by US export controls, however, the push for technology will add to strains in bilateral relations. Moreover, the emphasis on improving the technical competence of Indian firms -- on absorbing, not just importing, technology -- probably means that some restrictions on imports of sophisticated equipment will continue. [REDACTED]

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So far, Rajiv has not complained about US policies toward Indian borrowing from the Asian Development Bank and other multilateral lending institutions. However, he has retained key bureaucrats who in the past have complained about the politicization of foreign aid, although some have been shifted to different positions. When advising Rajiv, they will probably emphasize the relationship of reduced foreign lending to forthcoming balance-of-payments strains. [REDACTED]

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Near-term Decisions

We are likely to see several key policy announcements within the next several months:

- o Rajiv has directed that concrete steps to improve exports be taken within the next few weeks.
- o Policies and programs for the Seventh Plan, which begins in April and is already overdue, will be reviewed during the "weeks ahead."
- o Proposals for reform of the public sector are already under consideration.

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- o Two ministries have been asked to prepare specific proposals to improve productivity, absorb technology, and use capacity more fully.
- o The central government budget is usually presented at the end of February. This could provide information about tariff protection for domestic industries and subsidies for the public sector.
- o The annual trade policy, usually presented in April, will reflect any changes in import licensing controls and in export promotion efforts not already evident in the government budget.

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SUBJECT: INDIA: Rajiv Gandhi's Economic Policies--
Early Signposts [REDACTED]

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IEP/ANFSA/OSA
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